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March 17, 2009

Jim Fisher, Deputy Director
Water Department Operations Division
2797 Caminito Chollas
San Diego, CA 92105

SUBJECT: BID-TO-GOAL VERIFICATION OF SAVINGS

PERIOD: FISCAL YEAR 2008

PURPOSE:

The purpose of our engagement was to verify the accuracy of the budgetary savings reported by the Water Department Operations Division in the Bid-to-Goal FY 2008 Annual Report. In addition, we were to identify practices and procedures that could assist the Water Department Operations Division in improving future Bid-to-Goal program reporting.

SCOPE:

We performed a comprehensive review of the Water Department Operation Division's budgetary savings calculation. In completing our review, we compared total expenditures and encumbrances presented in the Bid-to-Goal FY 2008 Annual Report to the total expenditures and encumbrances reported in the City of San Diego Simpler reports. We reviewed the expenditures classified in the Annual Report as fixed budget objective and pass-through budget objective. We also analyzed expenditures presented as out-of-scope. In addition, we reviewed the encumbrances at June 30, 2008 and those closed subsequent to the end of the fiscal year.

SUMMARY:

Water Department Operations Division (Division) reported fixed objective budgetary savings of \$9,801,652 in the Bid-to-Goal (Bid) FY 2008 Annual Report (Annual Report). Per the Employee Bid agreement, 50% of the savings reported will be placed in an Assurance Fund for employee payouts. Based upon our comprehensive review, \$9,794,357 should be reported as fixed objective budgetary savings and \$4,897,179 should be eligible to be placed in the Assurance Fund for employee payouts. Adjustments to the budgetary savings are included below in Exhibit A.

EXHIBIT A:

Functional Areas	Savings per Annual Report	Savings per Audit	Decrease in Savings
Treatment Plants	1,293,101	1,293,101	\$0
System Operations	(915,022)	(920,353)	(\$5,331)
Construction	831,709	831,709	\$0
Administration Support	1,076,456	1,076,456	\$0
Water Quality Laboratory	1,034,866	1,034,866	\$0
Engineering	2,277,068	2,277,068	\$0
Reservoirs and Recreation	1,031,138	1,029,174	(\$1,964)
Safety	293,730	293,730	\$0
Divisional Contingency	90,619	90,619	\$0
Inflation	2,312,271	2,312,271	\$0
Electrical Consumption Credit	128,187	128,187	\$0
Revenue Credit	445,649	445,649	\$0
Correction to FY2007	(98,120)	(98,120)	\$0
TOTAL	\$9,801,652	\$9,794,357	(\$7,295)

FINDING AND RECOMMENDATION:

Finding 1:

Encumbrances set during the fiscal year that are closed subsequent to year-end are allowed to be removed from the total expenditures and encumbrances used in the savings calculation. During our testwork, we identified purchase orders that were opened prior to the beginning of fiscal year 2008. These purchase orders are not included in the fiscal year 2008 total expenditures and encumbrances, therefore, should not be removed from the total.

As a result of these encumbrance errors, the functional areas overstated budgetary savings by the following amounts:

Functional Area	Overstatement of Budget Savings
System Operations	\$ 5,331
Reservoirs and Recreation	<u>1,964</u>
	\$ <u>7,295</u>

Recommendation:

Carefully review all encumbrances and expenditures that are included in the released encumbrance portion of the budget savings calculation.

This report is intended solely for the information and use of the City of San Diego and Water Department Operations Division and is not intended to be and should not be used by anyone other than these specified parties.

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Jim Barrett, Public Utilities Director
Metropolitan Wastewater Department

We have performed the procedures enumerated below, which were agreed to by the City of San Diego, solely to assist you with respect to the Metropolitan Wastewater Department (MWWD) Bid-to-Goal Public Contracts Operations Agreement (Bid-to-Goal) for the year ended June 30, 2008. MWWD is responsible for the procedures performed on MWWD's Bid-to-Goal Program. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

We performed the following procedures:

MEO Budget Objective (Savings Calculation):

- Compared total expenditures and encumbrances presented in the Annual Report to the total expenditures and encumbrances reported in the City of San Diego's Simpler reports.
- Performed testwork and analysis related to expenditures presented as out-of-scope.
- Performed testwork and analysis related to released encumbrances.
- Recalculated supporting schedules and documentation.
- Recalculated Savings based upon results of testwork.
- Reviewed pass-through documentation and calculations.
- Reviewed budgetary documentation and calculations.

Key Performance Service Levels:

- Reviewed goal objectives.
- Compared the results for all 7 of the Key Performance Service Level Goals presented in the FY 2008 Annual Performance Report (Annual Report) to supporting documentation to verify achievement. One Key Performance Service Level was granted administrative relief, therefore, it was excluded from the procedures.
- Calculated percentages of Key Performance Service Levels met per results of testwork and verified that these percentages agreed with percentages reported by MWWD.

Division Performance Goals:

- Compared goals reported on at fiscal year end to goals presented in the goal summaries.
- Judgmentally selected a sample of goals from each division for testing based on the results reported by management, the complexity of the goal, and coverage of all Divisions.
- We tested 13 of the 20 goals provided to us by MWWD indicated as met or partially met, and reviewed the supporting documentation to verify goal achievement.
- Calculated percentages of goals met, per results of testwork.
- Recalculated Division savings, per results of testwork.
- Reviewed prior years' recommendations.
- We identified practices and procedures to assist MWWD in improving future Division Performance Goal program reporting.

Our findings and recommendations related to the Bid-to-Goal Program for the year ended June 30, 2008 are included in separate reports provided to MWWD.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion, on the Bid-to-Goal Program. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the City of San Diego and the Metropolitan Wastewater Department and is not intended to be and should not be used by anyone other than these specified parties.

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Carlsbad, California
March 19, 2009